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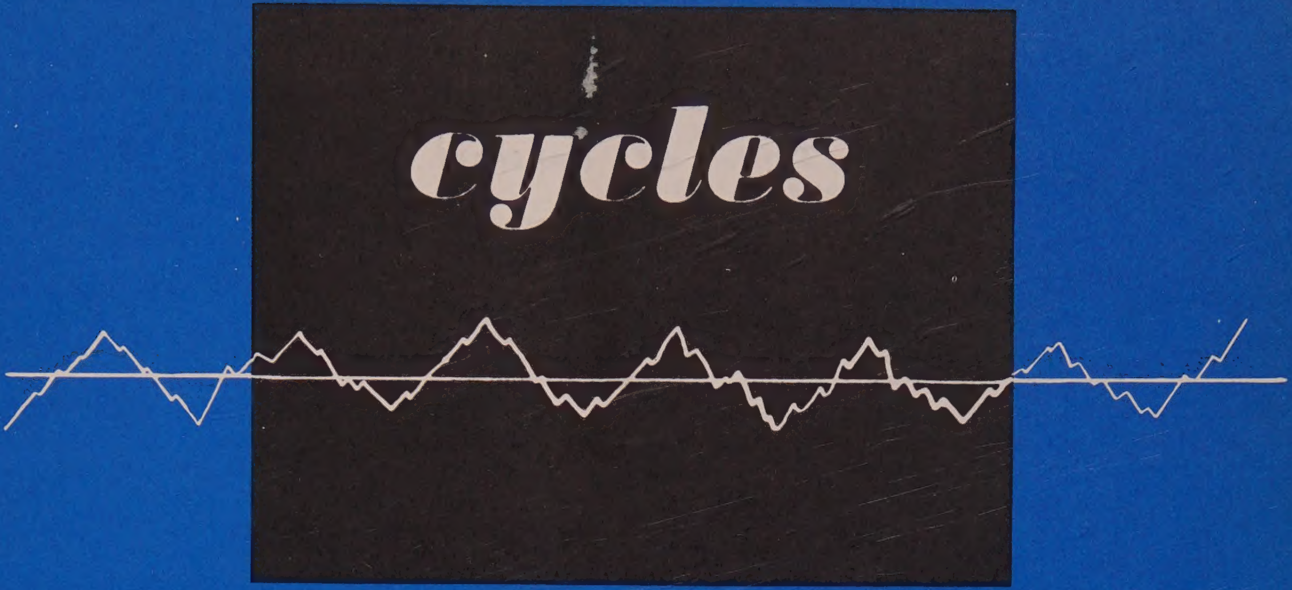

July 1960

FOUNDATION FOR THE STUDY OF CYCLES
New York, New York

cycles

JULY 1960

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Table of Contents

THE DIRECTOR'S LETTER 147
A review of the current status of some of the leading indicators

RESEARCH BY STAFF

During 1960 Cycles in Durable Goods New Orders May Cancel Out
by Gertrude Shirk 150

The 17-Week Cycle in Stocks Findings from New Research
by E. R. Dewey. 152

Who's To Blame, Writers, Publishers, Public? 154

TIME AND TIME AGAIN
by Gustav Gumpert 155

RESEARCH BY OTHERS

More About Abbot's Weather Forecasts. 156

A Minor Star Causes Major Events
by Harry Bogaty 157

LETTERS. 158
A discussion on the Foundation's work; questions and answers about the F. R. B. Index and the Geisinger Indicator; a query about turning points

Using Cycles—How To and How Not To. . .160

THE CYCLE ROUND-UP

Latest Figures and Stock Price Chart . .161
Charts on Corn Prices and Soybean Prices 162
Charts on Egg Prices and Liabilities . .163
Charts on Wheat Prices and Building. . .164
Chart on Hog Prices. 165

THE GEISINGER INDICATOR 166
This month's Indicator gives a warning signal

Our Program Is:

1) To collect as many examples as possible of rhythmic cycles in all fields of natural and social science.

2) To measure these rhythms with the greatest possible accuracy.

3) To record the length, shape, timing, and strength of each cycle found, and also record the longitude and latitude.

4) To stimulate and help others to do these same things.

5) To print the results of all research.

6) To arrange, catalog, and group all the cycles found and definitized by ourselves and others.

7) To serve as a clearing house among scientists to expedite all cycle work.

8) To discover the laws that govern the operation of cycles.

9) To deduce the cause or causes of cycles.

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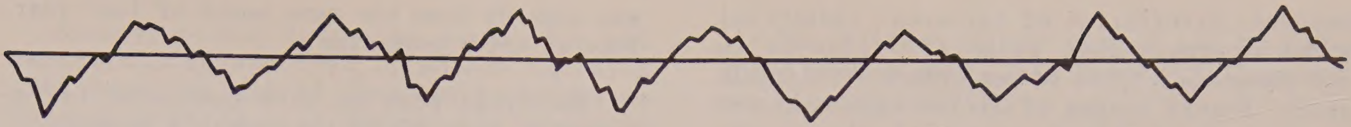


DIRECTOR'S LETTER. . . .

Dear Member:

One way you can outguess the future is by watching the leading indicators. Leading indicators are figures that tend to turn up or down before business in general. One kind of leading indicator is the Geisinger Indicator. We print the Geisinger Indicator for you each month.

Dr. Geoffrey Moore picked the best leading single indicators from the many thousands of business figures. It took years of work. Here is Doctor Moore's list:

1. New Orders for Durable Goods
2. Industrial Stock Prices
3. Liabilities of Failures
4. Residential Building Contracts
5. Nonresidential Building Contracts
6. Average Hours Worked
7. New Incorporations
8. Prices of 22 Commodities

Each of these series tend to go up or down ahead of general business. (None of these, I might say, is as good as your Geisinger Indicator.) However, you should watch all of them if you want to keep ahead of the turns in business.

The idea of leading indicators is not a new one. Chapin Hoskins used it as early as 1936. But probably no one has made such a scholarly analysis as Doctor Moore.

Leading indicators give you advance notice of a turn just the way certain plants give you advance notice of summer or winter. When the willows turn green and the daffodils bloom, you know that summer is coming. When the leaves turn color and begin to fall, you know that winter is around the corner. Leading indicators operate the same way.

Everyone who wants to know what's ahead for business watches all the leading indicators with great care.

Cycles In Leading Indicators

You can do even better than that. Suppose a leading indicator has a rhythmic cycle. Suppose you know what that rhythmic cycle is. If you know of the cycle, you know when the leading indicator *ought* to turn. You will naturally give more weight to a slight turn at that time. You will also give weight to a big turn at the wrong time!

Let me use an analogy from plant life. In our part of the country woodbine is one of the first plants to color in the fall.

Last September, when I saw some red woodbine, I thought, "Golly! Winter's coming! How time does fly!"

Suppose I had seen a small amount of red woodbine late in August. I would not have thought much about it. Woodbine wasn't due to turn yet. The color might have been due to a bit of road spray.

But suppose I had seen a *lot* of red woodbine. Red woodbine everywhere. It might have been warning of an early fall.

You should think this way regarding the leading indicators in order to get full value from your knowledge of them.

In former reports I have told you about rhythmic cycles in three of the eight leading indicators. (Residential building contracts awarded; liabilities of failures; industrial stock prices.) This issue of *Cycles* tells you about the cycles in new orders for durable goods. Future issues of *Cycles* will tell you about cycles in the four other leading indicators. If you study this information you will be less likely to bump your business toes.

Orders for Durable Goods

Durable goods might be called hardwares, as opposed to softwares, or quickly consumed items. It includes orders for primary metals, fabricated metals, machinery (including electrical machinery), transportation equipment (including cars, trucks and buses), lumber, stone, clay and glass products—all the items that last for years.

New orders for this type of goods have been sliding downward and sideways since the peak month of June 1959. There is a long cycle of over 50 months in these figures since World War II, and this cycle is about due to start downward. However, the effect may be softened by the up-leg of a shorter cycle of about 25—26 months, which is currently on the way up.

For a more complete story and charts on new orders for durable goods see page 150.

Stock Prices

As you know, stock prices are down. Dow-Jones Industrials for April were 623, down 7% from 671, the value for last December. This decline is not severe—the April average was still a little above a year ago. But it is not a good omen either.

Failures

The liabilities of commercial and industrial failures have been increasing. With failures (we should remind you) it is the *increase* that is bad. Liabilities have been growing almost month by month since last October. The size of the figures is not alarming, but it certainly would be nice if it didn't get any worse.

You can watch this leading indicator by following the Round-Up section of the report. See page 163 this month.

Residential Building

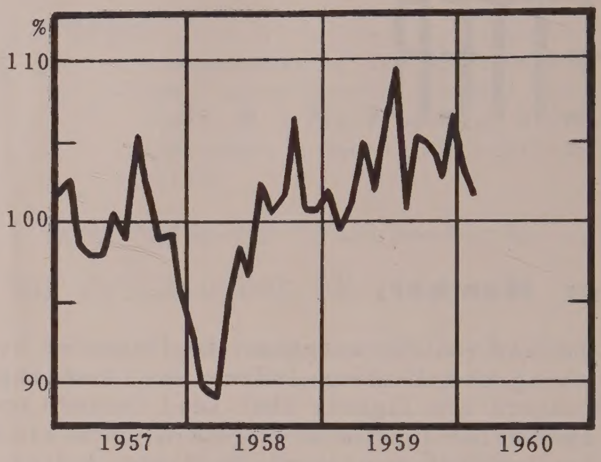
The value of residential building contracts awarded is down from a year ago. This downturn started in November 1959. January 1960 was down 9% from January 1959. February 1960 was down 8% from the same month of last year. This is not a good sign.

The cycle work on this indicator is reviewed on page 164 of this month's report.

So far I have covered the four leading indicators on which we have done some cycle work. The other four will be reported on, cycle-wise, in forthcoming issues.

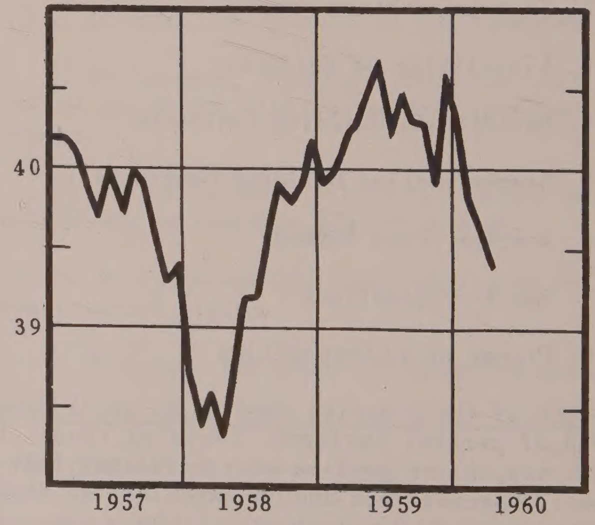
In the meantime, we can review briefly what has happened recently in each of the other leading indicators.

Nonresidential Building



Nonresidential building seems to have had a top last year. The figures plotted are one-year percentages to eliminate the seasonal factor. Also, they are smoothed to eliminate wild month-to-month moves. You may agree with me that this leading indicator is going down.

Average Hours Worked

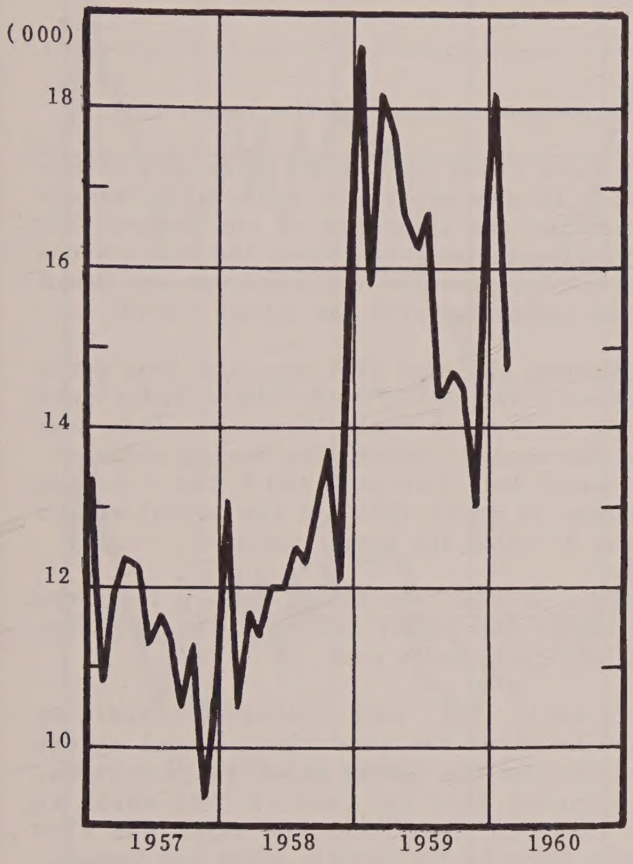


Average weekly hours per worker for all manufacturing was down 11 points in March 1960 from the high of nine months before in June of 1959. This is exactly the amount by which this leading indicator declined in the nine months from December 1956 to September 1957.

As you doubtless know, the 1956—57 decline in average weekly hours preceded the business set-back of 1957—58. (To see the effect of that set-back, refer to the chart of industrial production on page 166.)

The decline in hours is not a good sign.

New Incorporations



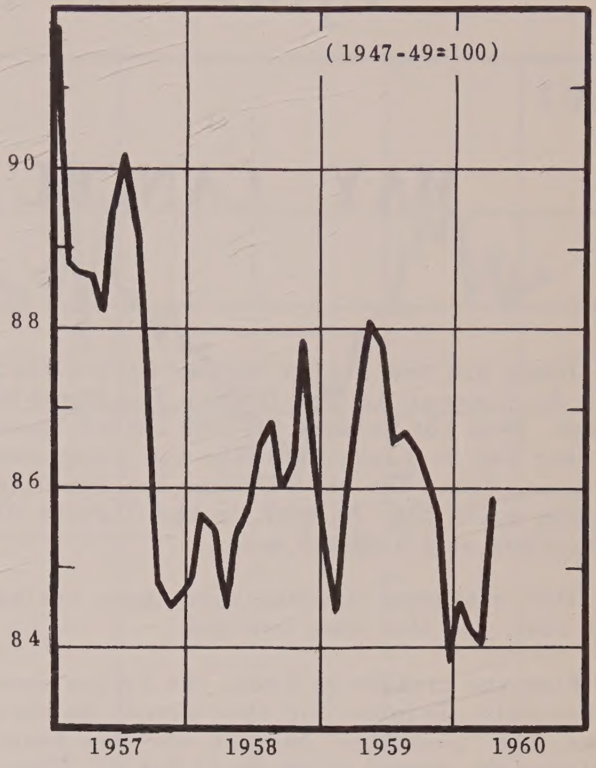
New business incorporations have been declining since January of 1959. January is normally a high month, and is followed by a low value in February. This seasonal cycle must be disregarded if you are to see what is happening to the figures, aside from the seasonal fluctuation.

If you were to draw a line through the month-to-month fluctuations, you can see that in 1959 the figures slid rather steadily downhill.

The February 1960 figure was 7% below the February 1959. This leading indicator is still going downhill.

The decline in new incorporations is also a bad sign.

Prices of 22 Commodities



The index of the prices of 22 sensitive commodities is down from the middle of last year, but lately this index has been rising. As far as it goes, this is a good sign.

In Conclusion

Of the eight leading indicators, four are going down, three are neutral, and only one could be going up, in my opinion.

This is not a cheerful situation, but is one of which you should be informed. Following the month-to-month performance of these leading indicators is one way to keep ahead of the changes in the level of general business.

A knowledge of the cycles in the leading indicators—if used properly—increases the value of these indicators.

Cordially yours,

Edward R. Dewey

Executive Director

During 1960

Cycles in Durable Goods Orders

MAY CANCEL OUT

There are two fairly strong cycles that may be present in New Orders for Durable Goods. Over the balance of 1960 one of these cycles may be going up while the other may be going down. The net of these two opposing forces would then be seen in the figures of new orders as a sideways move.

This statement assumes that these cycles are real, and that they continue.

From the picture at hand, the cycles seem reasonably obvious. But they cannot be more than just "possibles" because they are based only on the record since World War II. There are not enough repetitions over this short period to justify calling these waves more than just possible.

The record of new orders is shown at the top of the chart on the opposite page as Curve A. Curve B shows the first of the two cycles. It is about 25 or 26 months long. The record is too short for us to be more precise. The broken line with Curve B shows a possible average 25.5-month cycle. You will see that it has a low about the middle of 1960. Then it turns upward again.

Curve C shows a longer cycle. This cycle is probably over 50 months in length. It may be as long as 56 months. Because we have only two repetitions, it seems wisest just to say that if the cycle keeps on rolling as it has been, we may see a top in 1960.

Obviously, if the one cycle turns up about the same time as the other cycle turns down, there will be very little pressure from the cycles in either direction. The upward move of the average 25.5-month cycle will cancel out the downward force of the longer wave.

I have tried to state the result of our work with new orders in a hesitant manner because of the shortness of the record. You may feel more positive about the conclusions when you compare the combined ups and downs of the two cycles with the actual record.

Between 1952 and 1953 when the long cycle (Curve C) was going down, there was a peak in the 25.5-month cycle (Curve B). This peak kept the actual orders line moving sideways. Not until both Curves B and C had a bottom together in early 1954 did the actual record (Curve A) reach its lowest point.

Again in 1956, the low in Curve B flattened the top in the actual orders at the time when the long cycle had a peak.

In early 1958, both cycles were again at a low at about the same time. Actual orders were then at the lowest point in four years. Both cycles also had lows in 1949 which is not shown on the chart, but which was also a very low year for durable goods new orders.

The manner in which these two waves have meshed together since World War II to explain the movements in new orders for durable goods is provocative. Of course all the up and down movements in new orders may be the result of chance, like the fall of a coin that has been tossed in the air.

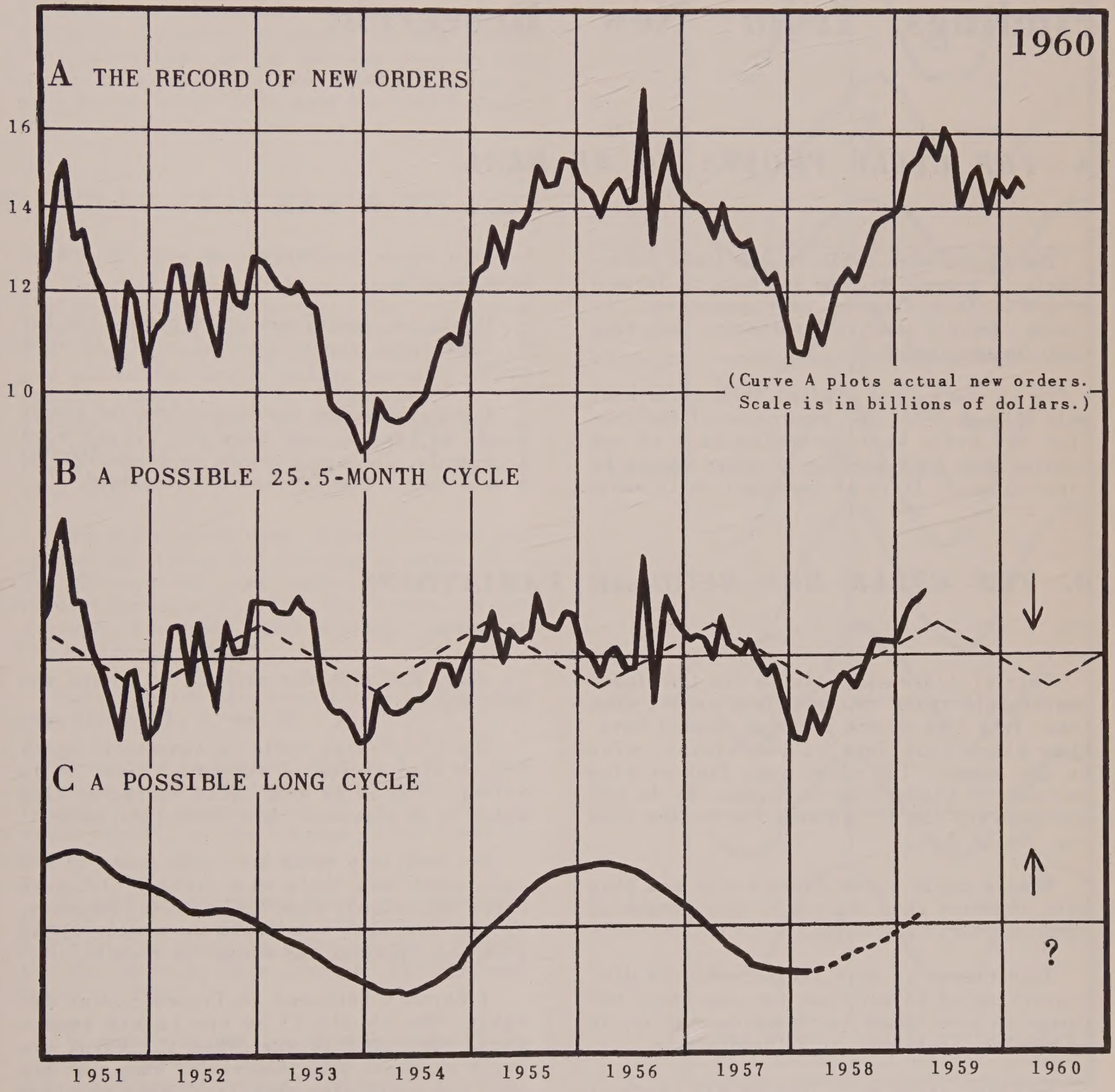
But if there is a pattern in the way these figures have moved, the two cycles may well explain it. If the cycles continue to move over the balance of 1960 and into 1961 in the paths cast by the past, we can give more

Research By Staff

weight to them.

At the current time the cycles do not indicate any drastic change in the level of new orders for durable goods. However, if the lengths are approximately right, and if they continue to operate, both cycles have a low in 1962.

New orders for durable goods are a leading indicator—they tend to go up and down ahead of business in general. There was a top in this series last June, and since then the figures have been moving downward and sideways. If it develops that we can depend on the two cycles we have extracted from this series, then we can look for a low in new orders in 1962. We will then have advance notice of when one of the leading indicators *ought* to turn up again. G. S.



Possible Cycles in New Orders for Durable Goods

THE 17-WEEK CYCLE IN STOCKS

Findings from New Research:

A. THE CYCLE PROVES TO BE REAL

The 17 1/6-week cycle in Dow-Jones Industrials is present all the way back to January 8, 1897. This fact is very important. It proves (for all practical purposes) that this cycle is meaningful.

Up to now we had studied this cycle back only through 1928. The importance of the fact that the cycle kept on coming true as our studies went back another 32 years cannot be overestimated. It is as important as it would be if a cycle discovered now kept on coming true to 1992.

Thirty-two additional years gives time for 97 additional repetitions of a 17 1/6-week cycle.

Another advantage that comes from the longer study is that we now have the length more accurately. The cycle proves to be 46/1000 of a week longer than previously calculated.

B. THE CYCLE HAS REGULAR VARIATIONS

This 17 1/6-week cycle in the Dow-Jones Industrials tends to come first early, then late. It's like an old pendulum clock I have. This clock runs fast in the winter, slow in the summer. The clock runs fast or slow because of temperature changes. We do not yet know why the 17 1/6-week cycle runs this way. But it does.

When a cycle comes first early and then late it means that the cycle wave length is first shorter, then longer.

This change of wave length would be disconcerting if it were not for one fact: the change in wave length is *rhythmic*—that is, it is regular. Therefore, it is predictable.

In this, it is much like my old clock. I know that next February the clock will be running fast. Knowing this I can make allowance for the error. Of course, with the clock I can regulate it, or set it back from time to time. But with the market, it is you who must adjust.

The 17 1/6-week cycle in industrial stock prices also varies in strength. First it is strong; then it is weak. This variation also seems to be rhythmic. More about this later.

You doubtless would have made money if you had played this cycle on a rigid 17 1/6-week basis continuously from 1897 to date. Probably, on the average, you would have made about 8% a year, playing the market as a whole.

I haven't bothered to figure it out exactly. Why should I? No one in his senses would play it this way. When the waves are early you would play them early. When they are late you would play them late. When they are strong you would play them hard. When they are weak you wouldn't play them at all!

It's like riding a horse. A horse I once had used to lope along *on the average* at one second a lope. But, depending upon the terrain, he would sometimes lope faster, sometimes slower. If I had insisted upon going up and down in the saddle according to his *average* pattern instead of according to his *actual* pattern, I'd have had a mighty sore tail!

Another thing: remember that you don't play the *market*. You play individual *stocks*. In different stocks this cycle is present in different strengths. Moreover, in some stocks it comes a week or two earlier than in the market as a whole. In some stocks it comes a week or two later. I've told you this before, but it's worth repeating.

C. WHAT THIS MEANS TO YOU

The chart in the next column shows you the main change in timing. The top curve (Curve A) shows you the smoothed average of the first 36 waves, trend removed. That is, the waves for weeks ending March 6, 1897 through January 2, 1909. These waves, on the average, crest a week *ahead* of average timing for the entire 63 year period. Average timing for all 63 years is shown by the vertical line A—B.

The *third* curve down (Curve C) shows you the average timing for the next 36 waves. That is, the waves for weeks ending January 9, 1909 through November 6, 1920. They crest, on the average, 1.8 weeks *after* average timing for the entire 63 years.

And so on for alternate curves on down the page (Curves E, G, and I).

The curves in between (Curves B, D, F, and H) show the average timing of overlapping intermediate sections of 36 cycles. As you would expect, on the average, they crest in between.

If this behavior continues, we can expect the 17 1/6-week cycle in the Dow-Jones Industrials to crest on time, on the average, for the 36 waves from June 24, 1950 through April 21, 1962.

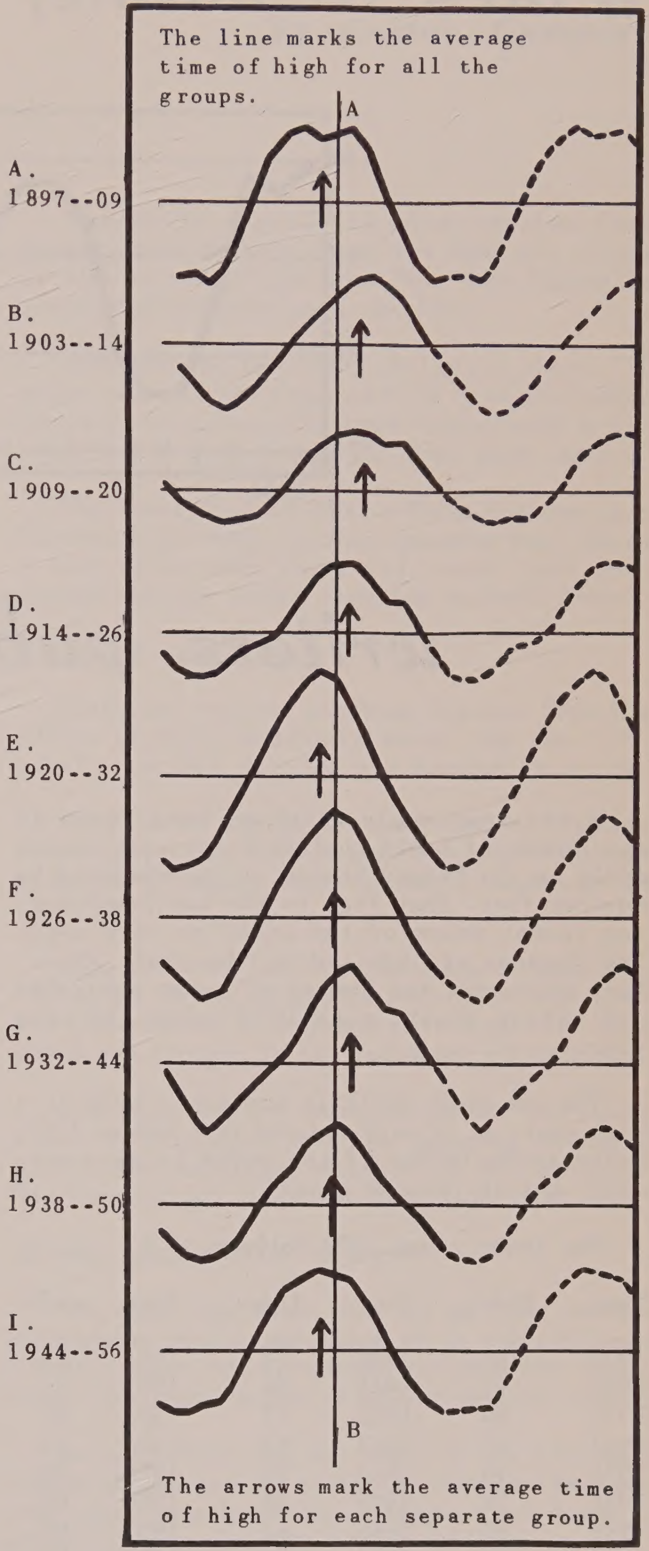
"On time" for the 17 1/6-week cycle at the present time would be a crest at week ending July 30, 1960 and every 17 1/6-weeks following.

However, don't try to use this information yet. I have lots more to tell you about this cycle first.

E. R. Dewey

17 1/6-WEEK CYCLE

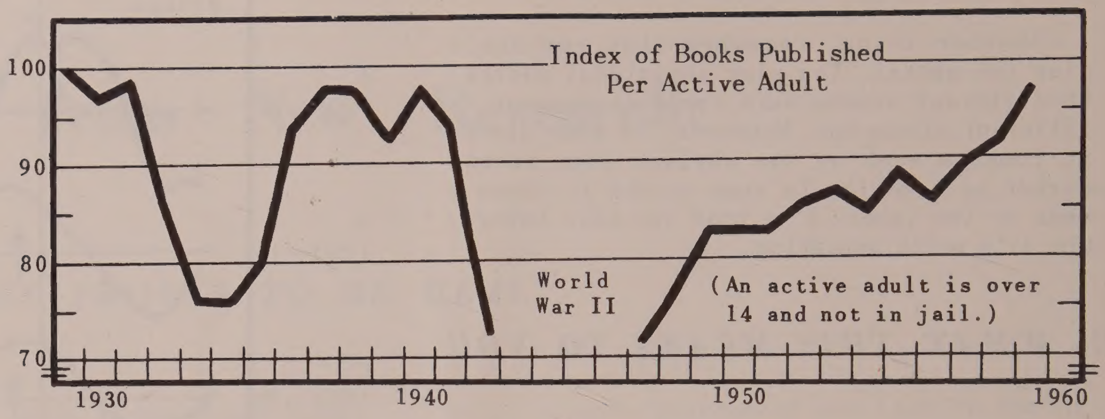
IN DOW-JONES INDUSTRIALS


The line marks the average time of high for all the groups.

The arrows mark the average time of high for each separate group.

The data are split into overlapping groups to show the regular way in which the average time of high moves back and forth.

Who's to blame,



writers, publishers, public?

A two-year cycle which we have found in the number of books published for each active adult in the United States is overshadowed by another fact. That fact is the *low* level during recent years of the index we have used. The figures are plotted on the chart above. They represent the number of books published per active adult, with 1929 being the base year.

The two-year cycle is apparent. 1959 is a high year, as is every second year before 1959. Prior to World War II the cycle is also present, but in reverse phase.

The index since 1929 follows.

Year	Index	Year	Index	Year	Index
1929	100	1940	98	1951	83
1930	97	1941	94	1952	86
1931	99	1942	77	1953	87
1932	85	1943	63	1954	85
1933	76	1944	51	1955	89
1934	76	1945	49	1956	86
1935	80	1946	62	1957	90
1936	94	1947	72	1958	92
1937	98	1948	77	1959	98
1938	98	1949	83	1960	?
1939	93	1950	83	1961	?

Since World War II, the low year of the two-year cycle has come in the even years. 1960 may thus be a low year. If it is, the line on the chart would move sideways, or perhaps even downward. (If you have a book you want to publish, your chances might be better in 1961!)

Although the two-year cycle is of interest, the primary fact to emerge from the chart is that at no time since the base year of 1929 have the figures reached the 1929 level.

Because of the two-year cycle, we should not expect 1960 to exceed 1959. The current year will probably not see any improvement in the situation.

Of course, if it is true, as Virginia Gildersleeve pointed out in the *Saturday Review* of May 14, that the books printed in the last fifty years will all fall into dust within twenty to one hundred years, it may not matter.

But in the current debate about our intellectual climate, perhaps we should give some attention to the necessity for the writers to write more, and the publishers to publish more, as well as for the readers to read more.

Research By Staff

Time and time again. . .

by Gustav Gumpert

Cycle notes and news:

Cycle enthusiasts who like theory should read the book *Living Time* by Dr. Maurice Nicoll, a British writer with a flair for lucid prose. Nicoll has collected amazing evidence—including experiences under anesthesia—to show that time is really cyclical. But ordinary human senses, he says, make us perceive time as a straight line or continuum.

All this is a bit hard to explain. Nicoll makes it clear, however, that the world of dimensions is a vast structure of recurring cycles that we, with our three-dimensional senses, know merely as a series of events moving from past to future.

Another provocative book on the same subject is J. W. Dunne's *An Experiment With Time.* His theory is similar to Nicoll's, but his style makes more difficult reading.

Atlantis, Anyone?

Are there cycles in the reported discovery of lost places? Judging by recent interest in those sinful twins, Sodom and Gomorrah, one gets the impression that, if there are, the spring of 1960 must have marked a crest.

M. Agrest, described by Soviet newsmen as a master of physicomathematical science, recently published a strange theory (quoted in detail by official Soviet news agency *Tass*) that these cities were blown up by nuclear explosions detonated by creatures from outer space.

Studying the Dead Sea Scrolls, Agrest concluded that the people of the cities, which he places in Syria, may have been told to leave the area before extra-terrestrial beings exploded left-over nuclear fuel and took off for their home planet.

Later reports say the Soviet Government has withdrawn *Literary Gazette,* in which the article appeared.

Query: does the USSR think, as American scientists do, that the theory is silly; or is this, to use a pun, too hot to handle?

Meanwhile, Christian missionaries from Kansas claim to have found the same two cities at the bottom of the Dead Sea, but Jordanian archeologists pooh-pooh the idea.

And down in the South Atlantic about 550 miles west of the Cape of Good Hope, Columbia University scientists have discovered a 25-square-mile island only 210 feet under water.

The final find of 1960's first quarter is a 60-foot-high tower in Narragansett Bay, which a skin diver swam into; its stones have been worked and are locked together without cement.

Diaper Cycle

Editorial writers studying figures from the Office of Vital Statistics wonder why the U. S. birth rate has dropped six months in a row.

This fact, coming in the midst of hooplah about population explosions, has set the birth watchers to asking what causes fluctuations in the birth rate.

Some analysts believe the cause is cyclical variation in the number of marriages, and that births—after an appropriate lag—reflect peaks and troughs in the incidence of weddings.

But what causes changes in the marriage rate? A *Wall Street Journal* reporter recently noted that marriages climbed 9% in February. His explanation: Lent was late this year!

Even Aristotle Knew

You can't get away from cycles. The theory of regular recurrence crops up in the writings of Aristotle, the Greek philosopher who fashioned the basic rules of modern western logic.

He said: "For men are wont to say that all human things are in a circle: and in the same way they speak of all things that have a physical genesis. The reason of this is that all things are measured by time, and have their beginning and their end, as it were, in a period; for time itself seems to be a wheel or cycle."

More About
ABBOT'S WEATHER FORECASTS

I don't think that I have ever seen as complete and thorough a job of forecasting based on cycles as the Abbot weather forecast. It predicts precipitation for 32 different cities in the U. S. for the years 1950 through 1967 by months. That is a total of 6,912 separate forecasts!

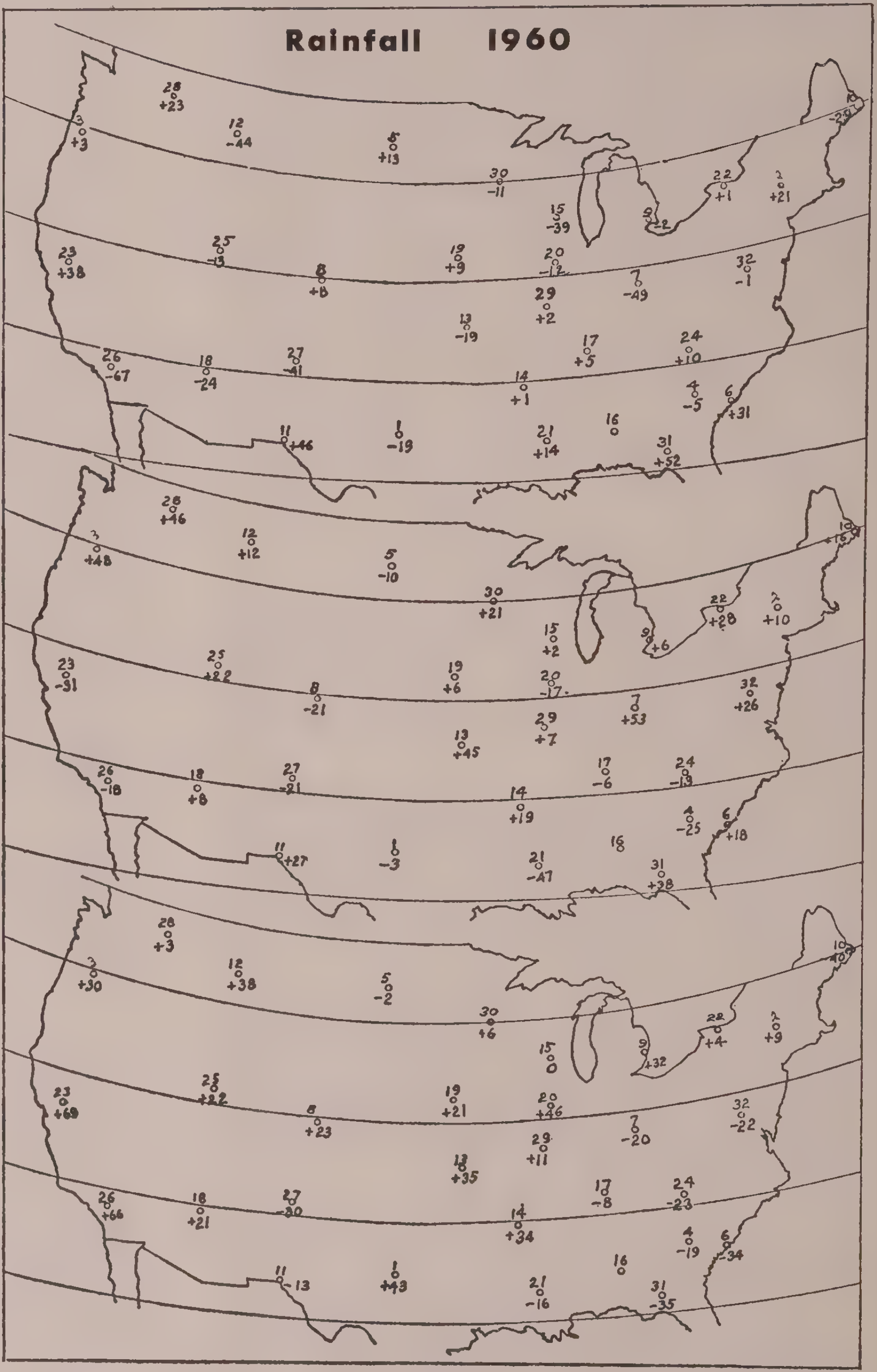
A summary of the forecasts for 1960 is shown on the map below. The top map averages

How to Read the Map

Each station is marked by a small circle. *Above* the circle is a number which identifies the city. The list of numbers and corresponding cities follows.

1. Abilene, Tex.
2. Albany, N. Y.
3. Albany, Oreg.
4. Augusta, Ga.
5. Bismarck, N. Dak.
6. Charleston, S. C.
7. Cincinnati, Ohio
8. Denver, Colo.
9. Detroit, Mich.
10. Eastport, Me.
11. El Paso, Tex.
12. Helena, Mont.
13. Independence, Kans.
14. Little Rock, Ark.
15. Madison, Wis.
16. Montgomery, Ala.
17. Nashville, Tenn.
18. Natural Bridge, Ariz.
19. Omaha, Nebr.
20. Peoria, Ill.
21. Port Gibson, Miss.
22. Rochester, N. Y.
23. Sacramento, Calif.
24. Salisbury, N. C.
25. Salt Lake City, Utah
26. San Bernardino, Calif.
27. Santa Fe, N. Mex.
28. Spokane, Wash.
29. St. Louis, Mo.
30. St. Paul, Minn.
31. Thomasville, Ga.
32. Washington, D. C.

Below the circle is a number which is the forecast. It tells the percentage deviation of precipitation from the normal for that station.



1960

the first four months of the year into one figure for each station. The middle map averages the middle four months, and the bottom map averages the last four months of the year.

The average forecast for the period is given *below* the little circle that marks the city. The forecast figures are percentage deviations from normal. A -22 figure means that precipitation is forecast at 22% below normal—a very dry spell. A figure of +31 means that precipitation is forecast at 31% above normal—a very wet spell.

The middle map gives the average for May, June, July, and August. The northeastern part of the country, according to the forecast, may have a wet summer. Abbot expects the forecasts may be up to 60% accurate. Thus, you should amend the forecast to say that there are about six chances out of ten that the northeastern part of the country will have a wet summer.

This expectation of accuracy is based on the fact that actual observations for 1950 through 1958 have been made. After comparing the observations with the forecasts, Abbot concluded that a little over 40% of the weather was unexplained by his cycle method.

Abbot is pleased with the degree of accuracy because of the daring nature of the forecast—the fact that it is based solely on the combination of cycles. Also, it was made without the help of the weather technicians. He notes that the method is in its infancy. It may be that the weather scientists can help with the explanation of the final 40% needed to make the result completely reliable.

Although the work is just in its infancy, the volume of detail behind the 6,912 forecasts is phenomenal. The project was supported by several institutions, in addition to the Smithsonian. It is reported on in "A Long-Range Forecast of United States Precipitation," by C. G. Abbot, in Smithsonian Miscellaneous Collections, Volume 139, Number 9. ($1.25)

A MINOR STAR CAUSES MAJOR EVENTS

by Harry Bogaty

Our sun is a relatively minor star in the universe, but it has a major cyclical effect on the earth and its inhabitants.

This was the conclusion of Captain Vladimir P. de Smitt when he addressed the New York Chapter on, "Sun Cycles, Their Influence on Earth and Man."

De Smitt is Research Associate in Geology at Columbia University, and was formerly Professor of Astronomy and Physical Geology.

He spoke of the sun as a star having periodic expansions and contractions at about eleven year intervals, when its radiation and temperature also varies. He presented two theories on the cause of sunspots: 1) Different layers of the sun rotate at varying speeds, and at their limits sunspots are formed; 2) The Tidal Theory represents Jupiter and Saturn as creating high tides on the sun.

De Smitt described how the chance placing of two magnets on either side of a spectroscope created a result that lead to the theory of the magnetic field of the sun. Later it was found that this magnetic field is affected by the sunspots.

As the propagation of solar energy varies with the sunspot cycle, de Smitt concluded that the earth and man are thus influenced by the sunspot cycle. Some of the evidences of this influence are changes in the magnetic field of the earth, in the temperature and precipitation on the earth, changes in the width of tree-rings, flowering of plants, multiplication of fish, animals, and insects, numbers of crimes, and numerous other events.

De Smitt used charts to show the remarkable correlation between the spots on the sun and many earthly events.

Letters:

The Foundation

Dear Mr. Dewey:

It seems to me that a clear line of demarcation exists between at least two very different types of Foundation members.

One type is interested in cycles the science, and the second type is interested in the stock market.

The Foundation, in including stock-cycle material to a moderate extent in *Cycles*, is trying to play two roles, both imperfectly. Each of these roles could be played more effectively if they were carried on separately.

Would it be possible to form a subsidiary to prepare and market a stock-cycle analytic service? Money from such a service would help support the Foundation's more scientific activities. New York University is in part supported by the earnings of Mueller Macaroni Company, which it owns.

Such a subsidiary could advertise for its stock-cycle service in a way that the Foundation could not and should not.

It seems to me that the range of possible approaches to the Foundation's problems should be broad and comprehensive rather than narrow and restrictive.

Detroit, Michigan — Robert W. Storer

Comment: Your idea is a good one. At present, we walk a tightrope in keeping our report from not being such a service and at the same time trying to satisfy our members who want stock-cycle information.

Such a split could enable *Cycles* to publish opinions and collatoral information our members would want to have. You have a splendid idea if it can be worked out. E. R. D.

Pro and Con

Dear Mr. Dewey:

I hope you don't realize how excellent *Cycles* magazine is, or it might inflate your ego. . . for instance, your April "Director's Letter."

Burlingham, California — F. A. Harper

◆ ◆ ◆

Dear Mr. Dewey:

How do you expect the average person to understand what you are saying? I just want to know when to buy and when to sell.

Chicago, Illinois — M. A. C.

F. R. B.

Dear Mr. Dewey:

What happened to the F. R. B. line on the Geisinger Indicator Chart?

In January and prior issues the low in 1958 was below the 130 line. In the April issue the 1958 low was below the 135 line. What happened?

New York, New York — H. W. Leffer

Comment: To answer your question about the F. R. B. line on the Geisinger Indicator Chart: the F. R. B. Index was revised by the Federal Reserve Board. That is why the charts were different.

We had to change the picture, using new figures. As you know, the Federal Reserve Board Index is designed to measure the production of goods—steel and cars and cotton, etc.

The effect of the revision was to tilt the line on the chart upward, with just a little change at the beginning, but more and more change toward the end.

The December 1959 Index before revision was

157 and after revision was 165.

I hope this explains the difference between the charts; we have had several letters about what appears to be a discrepancy. The Federal Reserve Board felt that the revision was necessary because benchmarks they use have recently been at higher levels than the index would indicate. G. S.

◆ ◆ ◆

Dear Mr. Dewey:

Looking at the movements of the "First Difference Indicator" in relation to the FRB Production Index over the last few months, I am somewhat puzzled about the way it is worked out.

I am well aware that the elements and structure of the "Geisinger Indicator" have been revealed to you by Mr. Geisinger in confidence and cannot be disclosed.

In case I am correct in assuming that this restriction does not apply to the "First Difference Indicator", I would appreciate the formula for it.

Beverly Hills, California Leo D. Fialkoff

Comment: You are right in thinking that there is nothing confidential about the First Difference Indicator. It is merely the difference that the FRB Index (smoothed) is from the Index for the preceding month (smoothed).

To eliminate minor fluctuations, the figures are smoothed by a two-month moving average of a three-month moving average before the change from the previous month is computed.

Basically, it is merely the growth or decline of the FRB Index month by month as it occurs. It measures rate of change. Rate of change figures often reach a turning point ahead of the actual figures. E. R. D.

◆ ◆ ◆

Dear Mr. Dewey:

I would like to know if we could obtain the figures of the Advanced Modified Geisinger Indicator from January 1920 to January 1947?

Los Angeles, California Thomas Walsh

Comment: I am indeed sorry, but the figures you want simply do not exist because some of the components that go into the Geisinger Indicator part of the Advanced Modified Indicator were not gathered prior to the war. During the war, the Indicator was so distorted it was of no value. E. R. D.

Morgan's Talk

Dear Mr. Dewey:

The article in the May issue on "What Every Yale Freshman Should Know" was worth many years memberships. It embodies what I have tried to teach my children—don't be afraid to disagree with anybody—forget the crowd.

I was called the original iconoclast in a class when I asked for a proof. I know an inquisitive student is a nuisance, but they are the boys and girls who make the wheels go round.

We may not wind up with a million, but it's been a lot of fun.

Kingston, Illinois A. M. Simmons

Turning Points

Dear Mr. Dewey:

I have used various charts for years, but not along the cycle line. Your projections, as for wheat prices, show definite points for reversals. Can you enlighten me as to why you picked the particular reversal points shown?

Peoria, Illinois R. M. P.

Comment: The reversal points that are shown for wheat prices are not picked—they result from an analysis. The work averages past behavior so that we know that wheat prices go up for 4.6 years and then go down for 4.6 years. This is typical, average behavior of wheat prices. What causes it we do not know, but we do know that 7 out of 9 times (up to February 1960) it has happened.

According to the average past behavior of wheat prices, the chances were 7 to 2 that the February 1960 price of wheat would be below the price at the time of the previous high, which was at June-July 1955.

This has happened. See the chart on page 164. Each time a cycle comes true after discovery, the odds go down. But the selection of dates is the result of figure work, and not personal judgment. E. R. D.

Using Cycles —

HOW TO AND HOW NOT TO!

Our excursion into short term cycles in stock prices has brought forth some interesting reaction.

For example, a woman from Oakland, California once wrote me:

"I am beginning a chart of certain stocks to see just how sensitive they are to the 17-week cycle.

"Should some of them prove to be influenced by this cycle I am going to be a guinea pig and find out in a small way.

"My experiment with the 17-week cycle will be shorting in a major bear market and buying long in a major bull market. I won't go both ways in either bear or bull markets.

"Let's see what will happen—on paper first, of course."

How To

This member is to be commended on several counts. First, she realizes that the cycle must be applied to an individual stock before it can be used. Second, she realizes that some stocks may not respond to this cycle. Third, she realizes that any knowledge of this sort should be applied to paper transactions before it is applied to actual ones. (One investment counsellor of my acquaintance says he tests a new technique for *ten years* before applying it.)

On the other hand, there are several things this gal may not realize.

How Not To

ONE: For purposes of trading, it is not enough to find a cycle present in the stock. It must be *strongly* present. Our friend may not realize that any particular cycle, such as the 17-week cycle, should be *several* times as strong in some stocks as in the averages.

It is not enough to find a stock where the cycle is present. I should think you would scan the behavior of 20 or 30—perhaps even 50 or more—before deciding upon which stocks to watch.

TWO: In watching the behavior of this (or any other cycle) in a particular stock, I wonder if our friend realizes that the ideal time for any particular stock is likely to be a little earlier or a little later than for the average of all stocks. This means that for the test she must find the ideal timing for *her* stock.

THREE: I had no thought that anyone would think to trade on this *one* cycle alone. This is only one of many cycles. She needs a combination of *many* cycles and other knowledge as well for practical results.

Our friend speaks of not going both ways in either bear or bull markets. Sometimes it is a moot point—is the market bear or bull?

Another member points out that trading the 17-week cycle 1949—1957 would not have been as profitable as riding the bull market continuously. Of course it wouldn't. Being in the market continuously on a short term cycle alone wipes out the advantage of the long term trend completely. The bull and bear markets are the result of other factors that must also be taken into account.

The Rain Song

I am reminded of the poem by Alex Rogers called "Rain Song." It points out that one or two signs are not enough for predicting rain. But when your joints ache, and it's very close, and sounds in the far off hills are near, and the birds get shrill, and the furniture creaks, and the dog eats grass, and everything else that means rain happens all at once, then you can forecast rain.

Likewise with the market—watch *all* the signs. It takes brains and *lots of hard work* to make money in the stock market. You can't buy all the answers for $12.50! E. R. D.

The Cycle Round-up

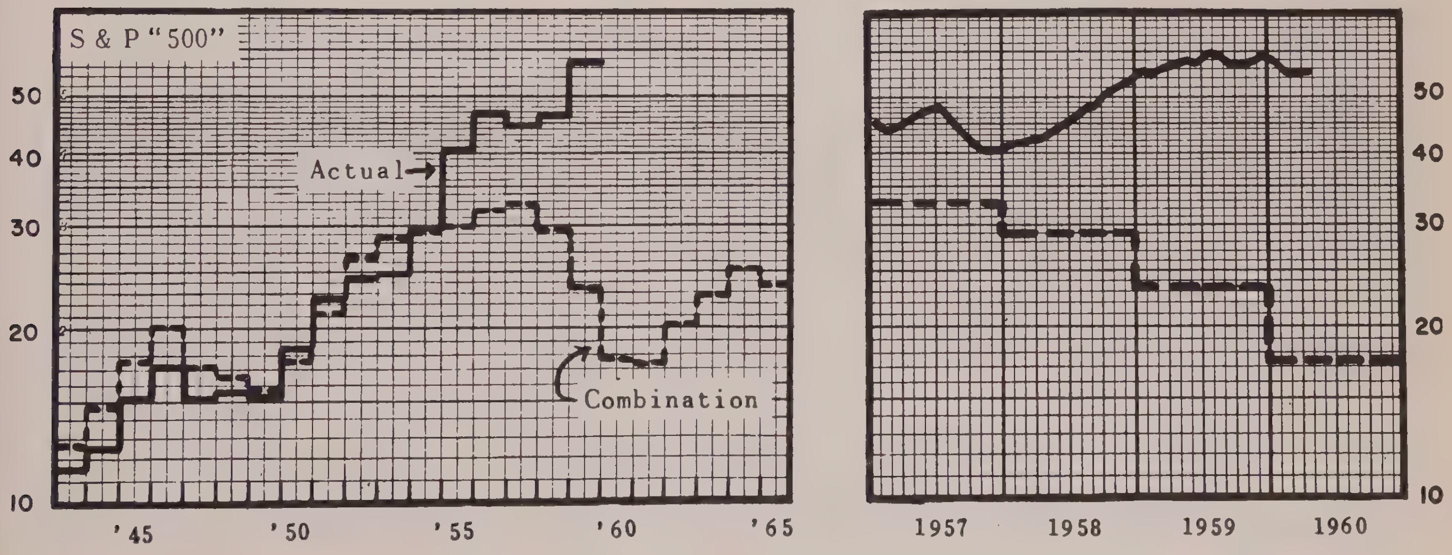
JULY 1960

For those of you who follow each month any of the series regularly reported in the Round-Up, the most recent figures are given below.

Series	Unit	Month	Amount
Automobile Factory Sales	Thousand cars	Mar Apr	660r 584p
Bond Yields—Moody's Domestic Corporate	Per cent	Apr	4.76
Cocoa Beans—Accra, New York	Cents per pound	Mar	27.1
Copper Prices—Electrolytic, New York	Cents per pound	Mar	32.60
Cotton Consumption	Thousand bales	Mar	888
Egg Prices—Wholesale, Extras, Large, Chicago	Cents per dozen	Apr	36.3
Soybean Prices—No.1, Yellow, Illinois Points	Cents per bushel	Mar Apr	208 211
Stock Prices—Standard & Poor's Combined Index	1941-43=10	Apr	55.73
—Dow-Jones Industrials Average	30 stocks	Apr	623.48
Sunspots—Zurich, Provisional	Number	Apr	120.4

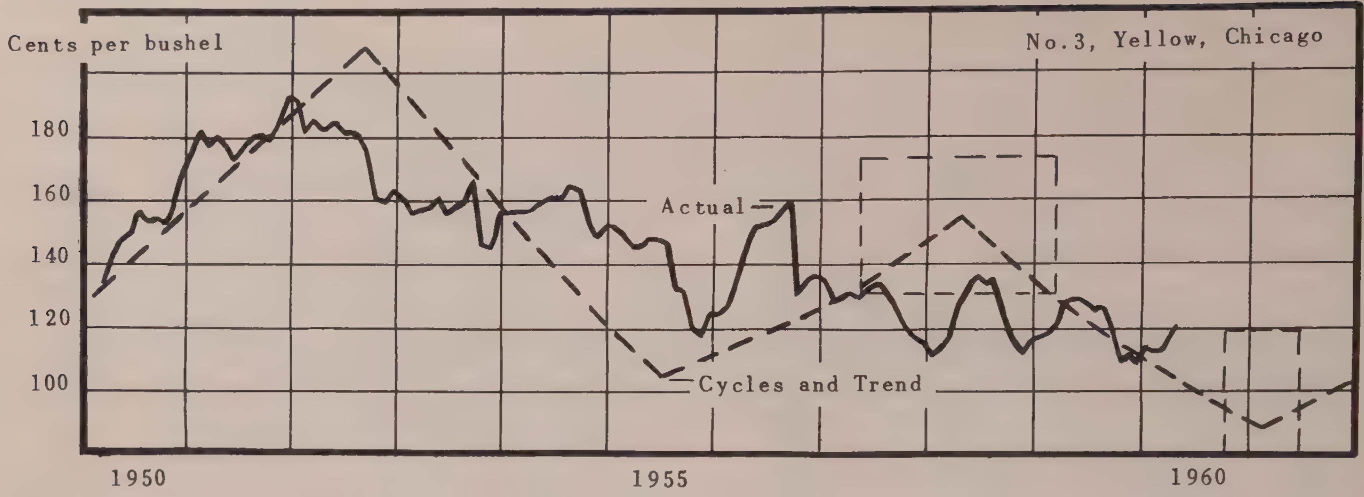
r - revised; p - preliminary

STOCK PRICES



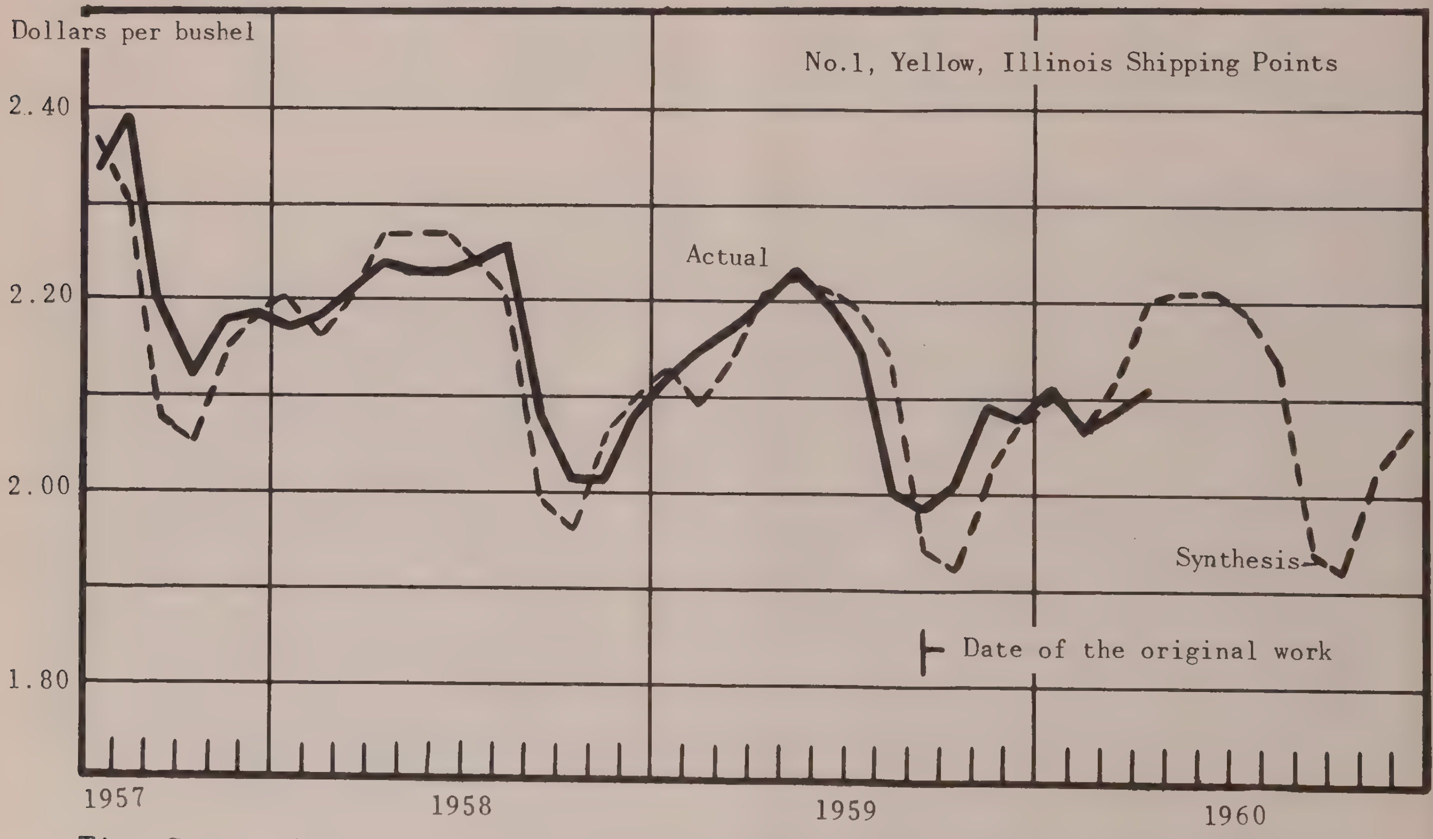
The broken line on the chart above is the combination of the 11 long cycles we have isolated in Standard & Poor's Combined Index, plus an underlying trend. The actual index is shown by the solid line.

CORN PRICES



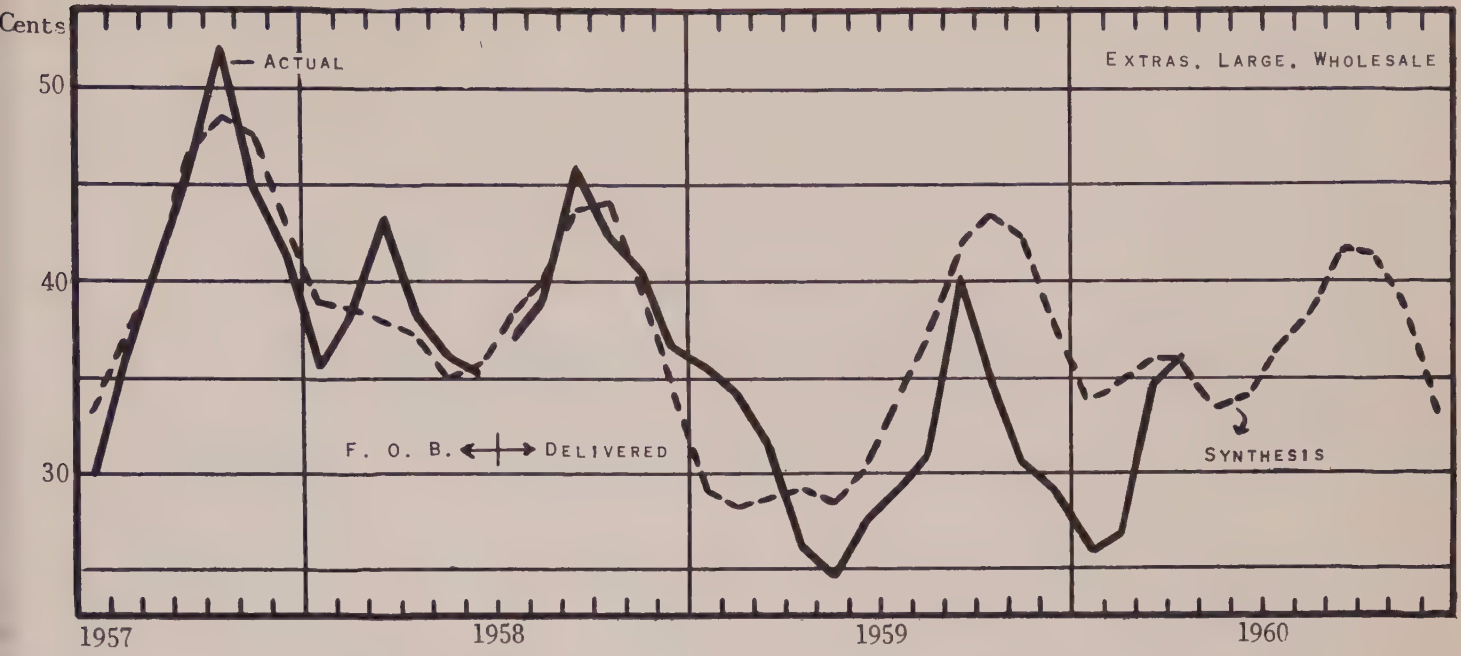
The 67 1/3-month cycle in corn prices is now on the way down to a low due ideally at February, 1961. This cycle, plus an assumed trend is shown by the broken line. The average cash price of No. 3 yellow corn at Chicago during April was 120.7 cents per bushel.

SOYBEAN PRICES



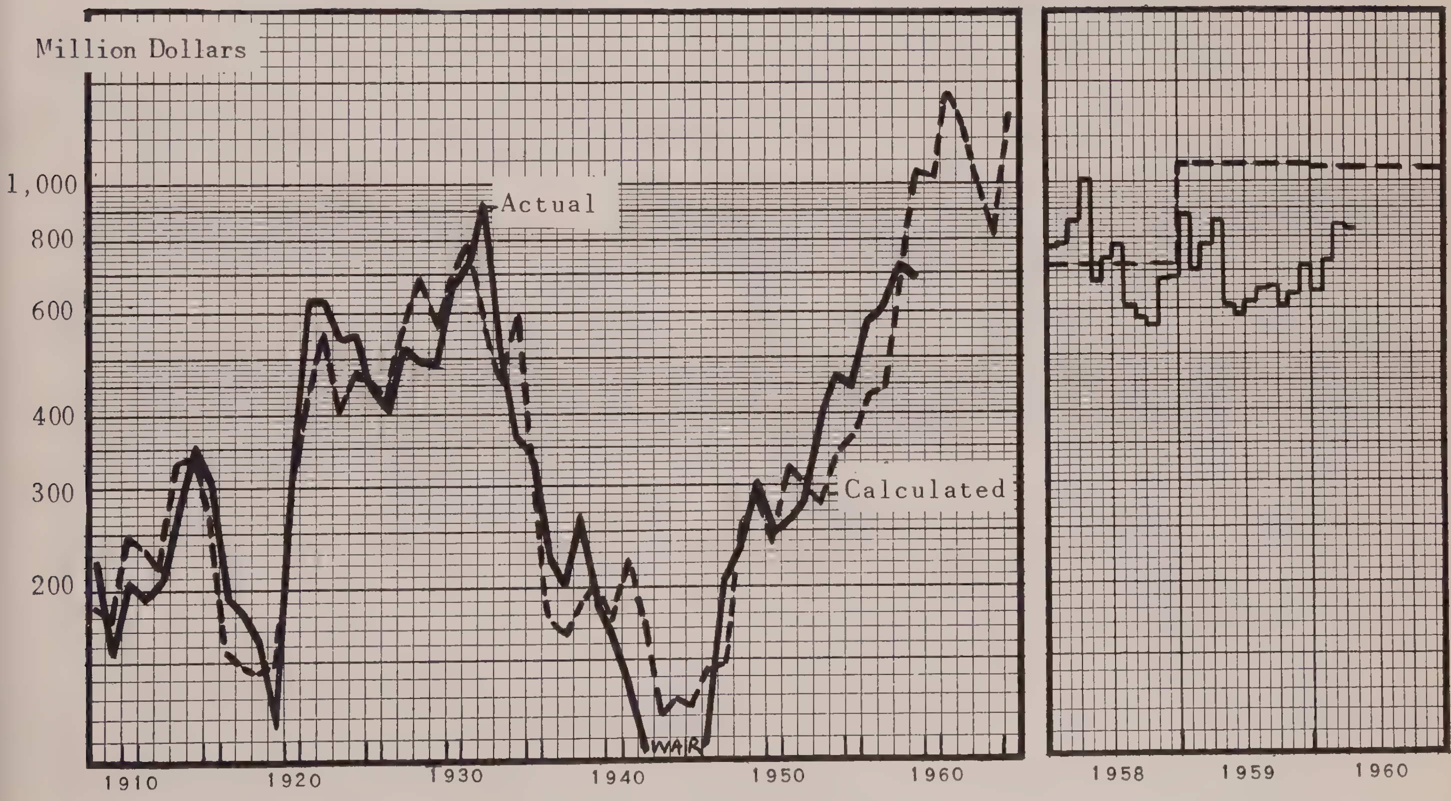
The Comparison of the Average Monthly Cash Price of Soybeans with the Seasonal Cycle Plus Trend

EGG PRICES



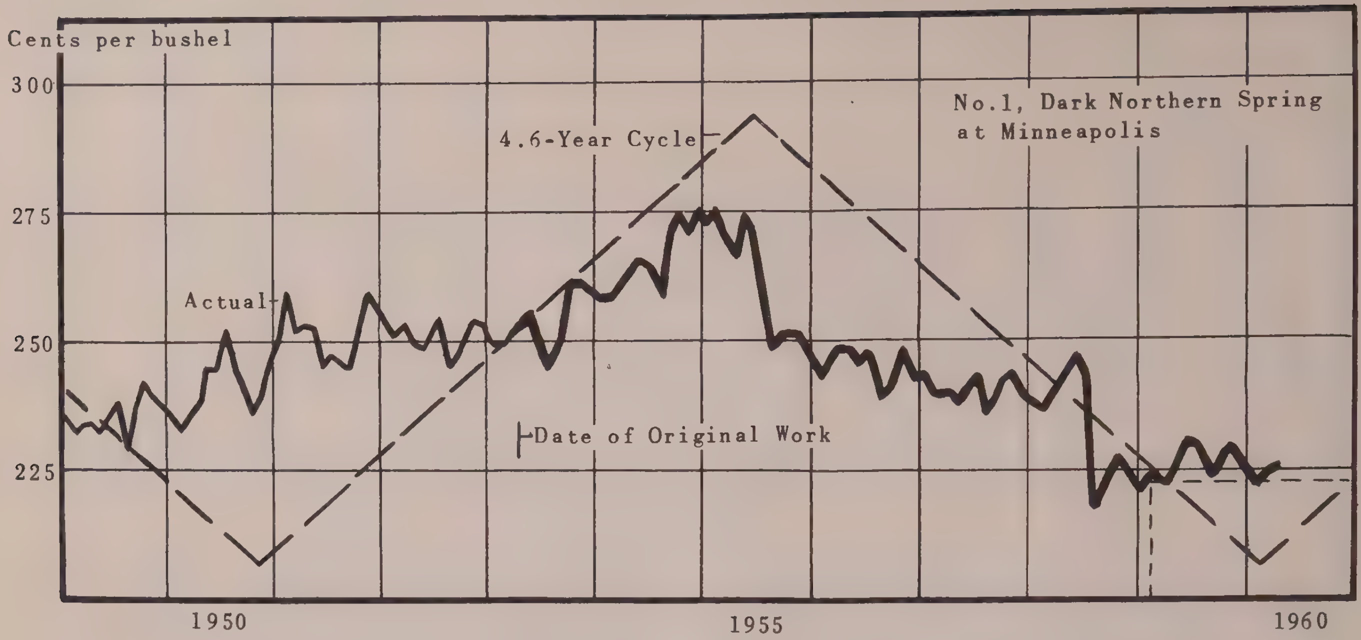
A 26.5- and 12-Month Cycle Plus Trend vs Average Cash Price at Chicago

LIABILITIES OF FAILURES



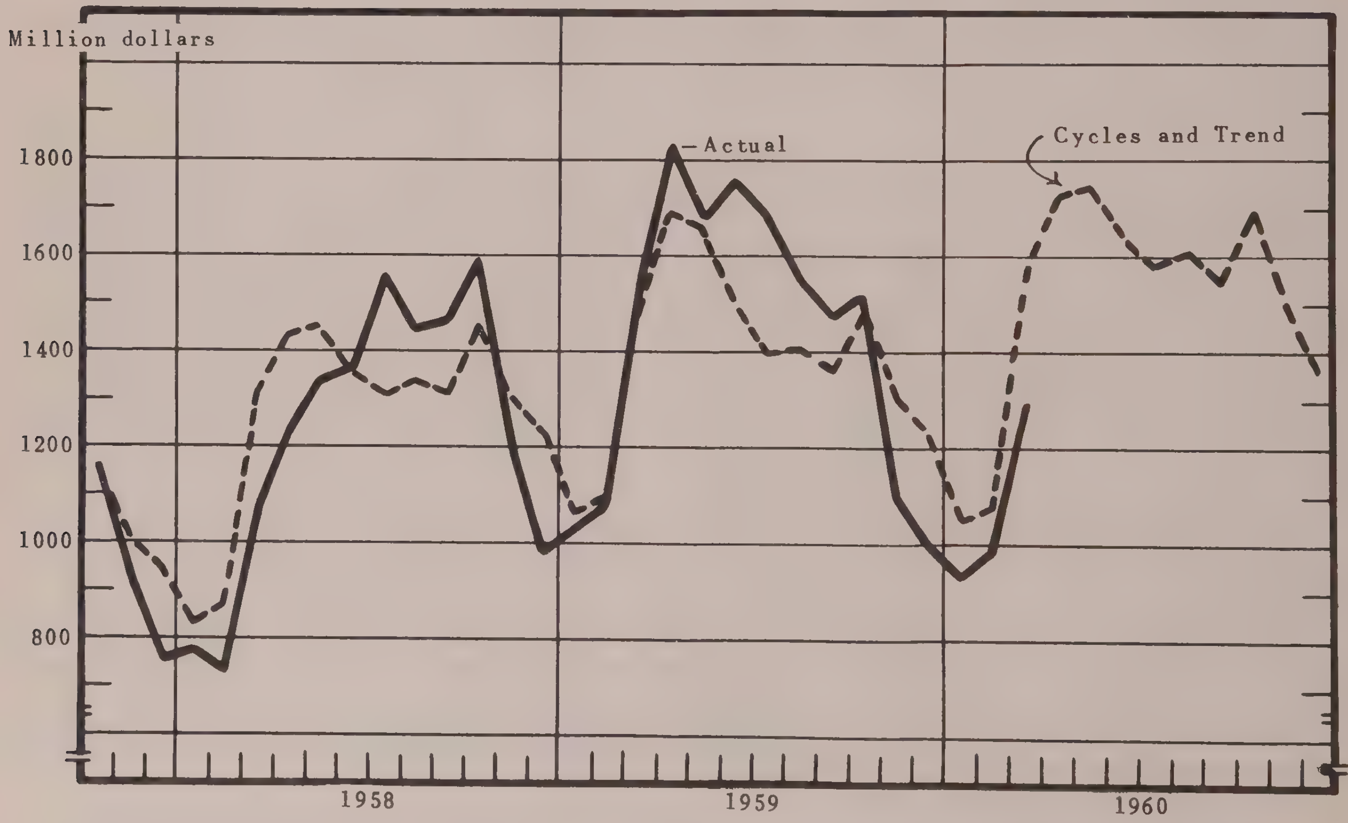
Five Cycles Plus Trend Compared to Actual Liabilities

WHEAT PRICES



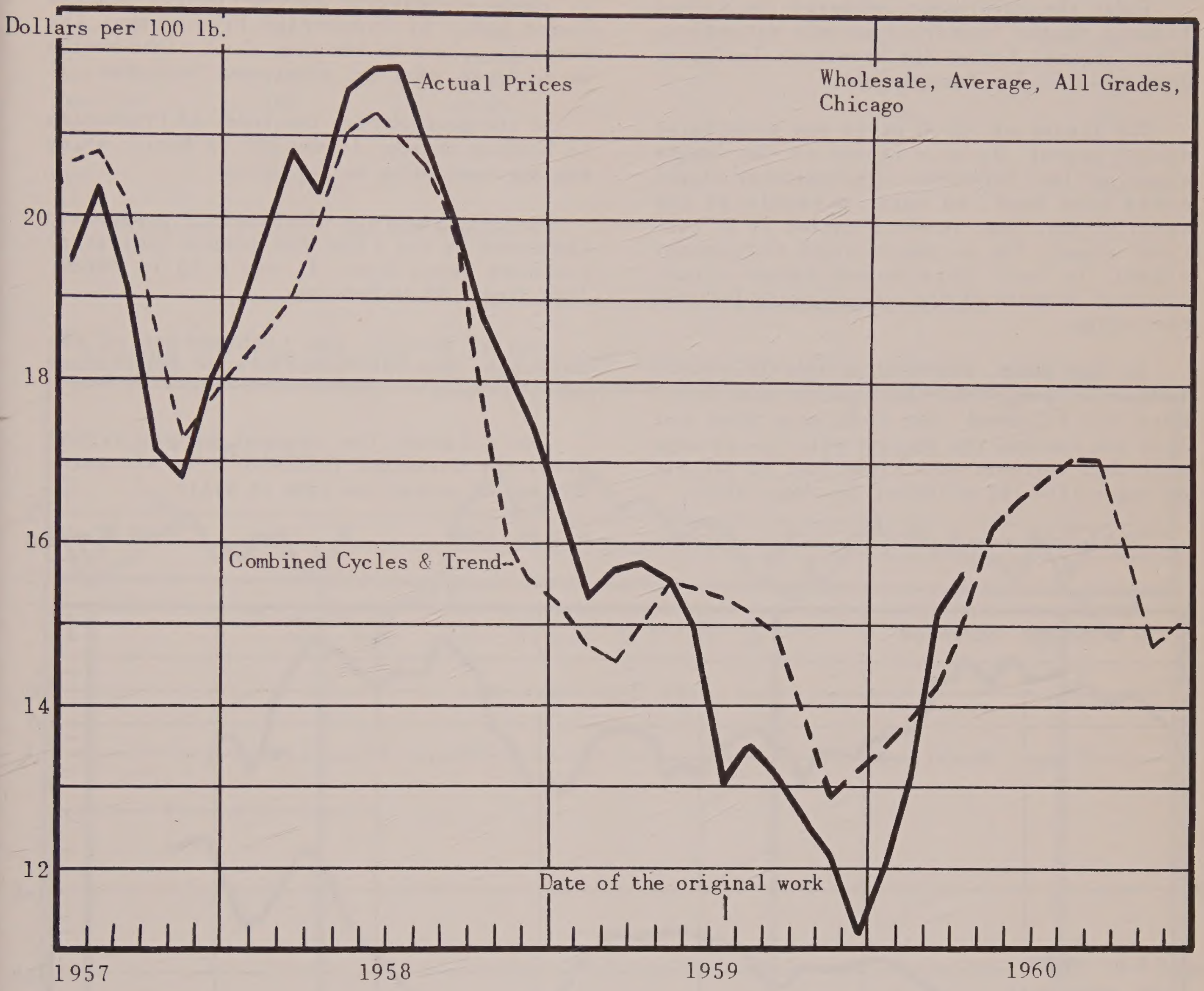
The 4.6-Year Cycle Compared to Actual Prices

RESIDENTIAL CONSTRUCTION CONTRACTS



Two Cycles and Trend Combined Compared to Actual Contracts

HOG PRICES



The 38.2- and 12-Month Cycles Plus Trend Compared to Actual Prices

The Geisinger Indicator

FORECAST

Today the government released the latest figures on the current economic situation. These figures forced the Geisinger Indicator down to -2.80 for January last.

The figure of -2.80 gives you a definite danger signal. It is a repeat of the danger signal of last September. The September signal could have been, in part, a result of the steel strike. That is why I called it a "caution" signal. But we cannot alibi the present signal. In fact, this second danger signal occurred *in spite of* the rebound which followed the strike.

In the past, every time the Geisinger Indicator, going down, has cut -2, poor business has followed. The Indicator does not tell you how bad the decline will be—it says only that business will slump (see my article on pages 141—143 of *Cycles* for June, 1960).

"Business" means the physical production of goods as measured by the Federal Reserve Board Index of Industrial Production. The warning applies to the time about eight months or so later; that is, about next September.

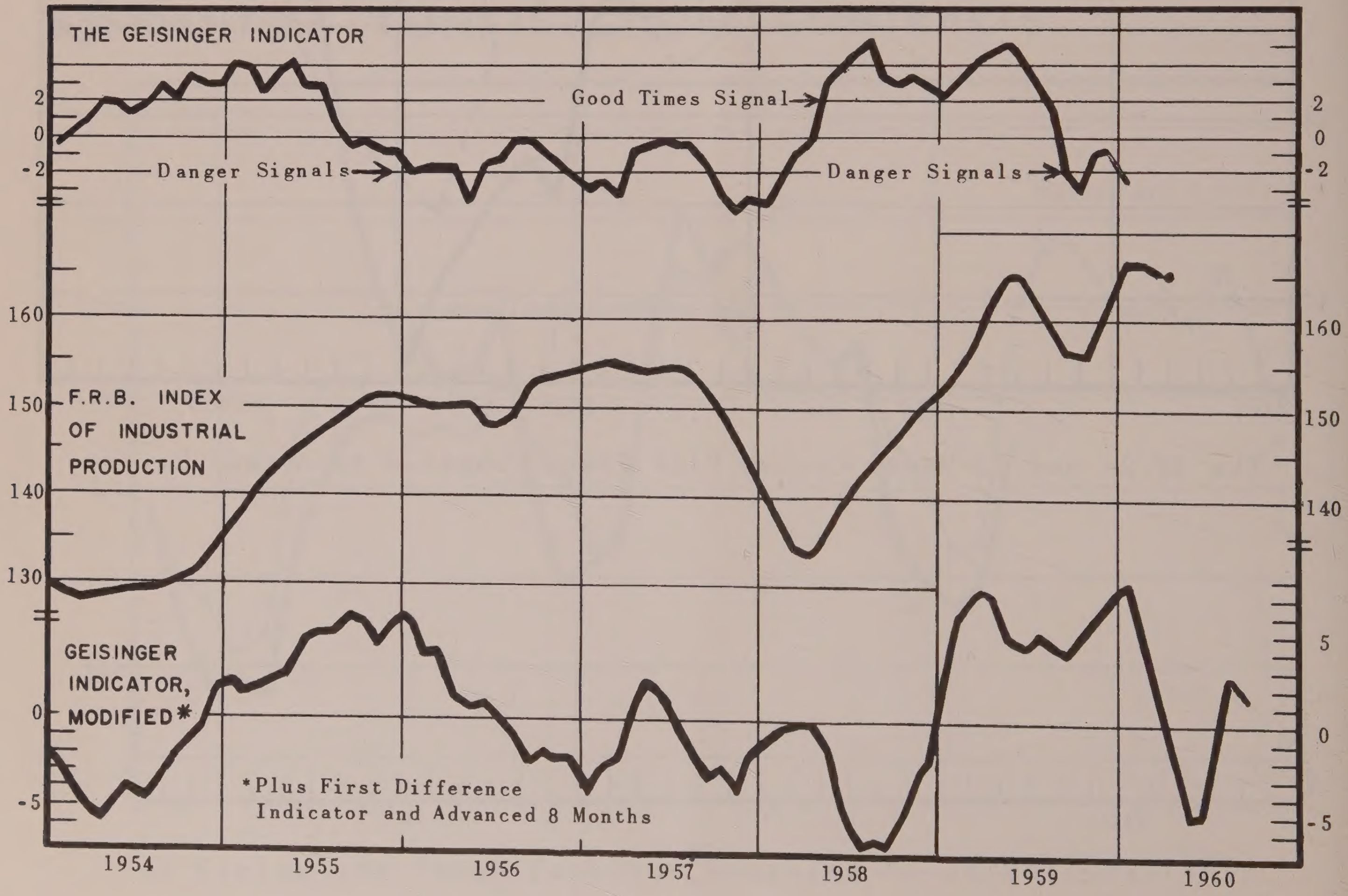
At the present time the Index of Production is holding steady. It was 165 in April, which was the same value as for March.

However, the rate of change of production (measured by the First Difference Indicator) has been going down. It was 0.50 in March, down from 1.83 in February.

And of course, the combination of the Geisinger and First Difference Indicators was also down.

Don't ignore the current danger signal until the Geisinger Indicator cuts +2, going up (as, of course, in time it will).

May 25, 1960 E. R. Dewey

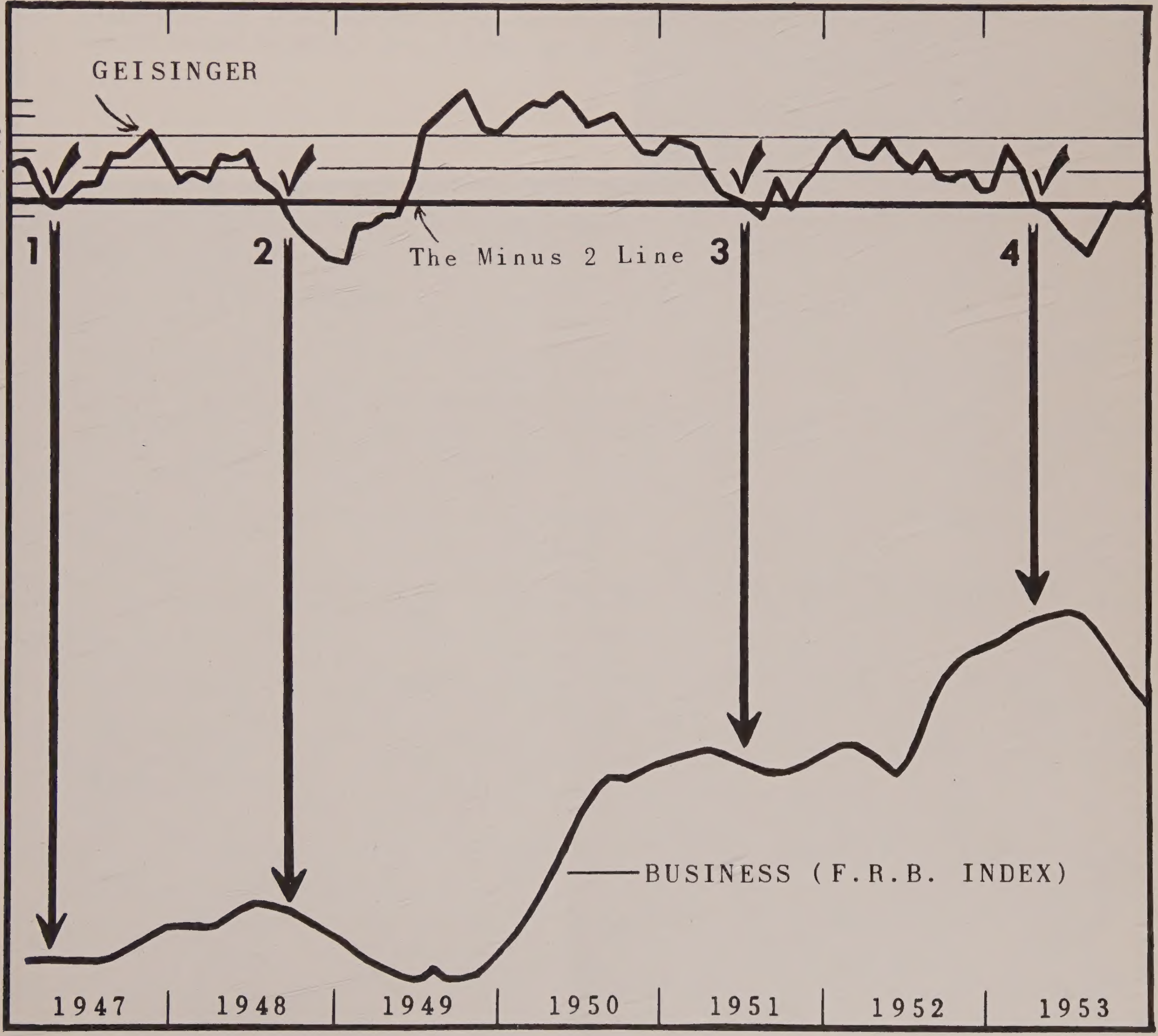


THE MOST RECENT FIGURES:

Month	F.R.B. Index	Geisinger Indicator	First Difference Indicator	Modified Geisinger Indicator	Timing Advanced 8 Months
Oct-1959	154	-3.20	-1.83	-5.03	1960-Jun
Nov	155	-1.00	1.00	0.00	Jul
Dec	165	-0.80	3.67	2.87	Aug
Jan-1960	168	-2.80	4.16	1.36	Sep
Feb	166	*	1.83	*	Oct
Mar	165	*	0.50	*	Nov
Apr	165p	*	*	*	Dec

p - preliminary; * - not yet available

A RECORD OF THE COURSE OF BUSINESS AFTER PREVIOUS DANGER SIGNALS:



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The Journal Of Cycle Research

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- *Cycles in Sunspot Numbers*
- *Cycle Analysis: The Moving Average*
- *Global Pattern of 4.222-year Cycle in Temperature*
- *The 9.3 and the 8.6-year Cycles in Copper Prices*

Volume 4, 1955:

- *Latitudinal Slippage of Bob-White, Hairy Woodpeckers, and Downy Woodpecker Cycles*
- *The 17-3/4 and 18-1/5 year Cycles in Various Phenomena*
- *Seasonal Cycles of the Common Cold and their Relationship to Susceptibility*
- *On the Significance of Recurring Patterns in Serially Correlated Economic Time Series*
- *A Method for Separating Cycles and its Use in Conjunction with Other Methods*

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- *A Description of the Hoskins Time Chart*
- *Ultra-Long Waves and Global Patterns of Temperatures*
- *The 9.18-year Cycle in Railroad Stock Prices*
- *Physical Factors of Historical Process by A. L. Tchijevsky (As translated and condensed by Vladimir P. de Smitt)*

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